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COMPTROLLER'S MEMORANDUM NO. 1993-14

TO: Heads of Departments  
ATTN.: Fiscal Offices  
FROM: Robert P. Takushi, Comptroller  
SUBJECT: New One-Year Rule on Travel Expenses


This memorandum is to provide information that affects payroll tax withholdings on travel allowances in the relatively rare instances in which a State employee is on travel status in a single location for a period that exceeds one year. If your department does not have an employee who remains on travel status in a single location for a period that exceeds one year, this memorandum has no current applicability to your department.

Beginning in 1990, the State of Hawaii, as employer, has been required to withhold payroll taxes on travel allowances that exceed the federally allowable travel amounts (e.g., lodging and meals). The procedure for withholding payroll taxes was described in training sessions at that time and has been updated by Comptroller's Memorandums since then. This Comptroller's Memorandum is another of that series.

Public Law No. 102-486 (the Energy Policy Act of 1992) was enacted October 24, 1992, and it has affected application of Section 162(a)(2) of the Internal Revenue Code by changing the character of travel expenses incurred by an employee who remains on travel status in a single location for a period that exceeds one year. Such travel expenses will not be treated as traveling expenses while away from home. Such travel expenses will therefore not be deductible by an affected employee, and any related travel allowances paid to the employee will consequently be taxable income. Because the amount of travel allowances in such a case will be taxable income to the employee, the State of Hawaii, as employer, must withhold payroll taxes on the full amount of the travel allowances. This withholding can be accomplished under the regular procedure established in 1990, except that federally allowable travel amounts are not subtracted from the amount of travel allowances paid to the employee to arrive at the taxable amount for payroll withholding purposes.

The new one-year rule on travel expenses is effective for travel expenses paid or incurred after December 31, 1992. Once an employee's travel status in a single location exceeds one year, all travel expenses paid or incurred from the time the travel began become subject to the new one-year rule. It is therefore possible, in some cases, that the new one-year rule will need to be applied retroactively. The new one-year rule does not, however, apply to any expenses paid or incurred before January 1, 1993. If travel began in 1992 and extends into 1993 so that the time on travel status in a single location exceeds one year, only the expenses paid or incurred in 1993 will be subject to the new one-year rule.

Please forward this information to the offices in your department that are responsible for calculating the taxable portion of travel allowances. It is our understanding that the Internal Revenue Service intends to provide further guidance on the new one-year rule; any additional information will be sent to you as it is received.

  
ROBERT P. TAKUSHI  
Comptroller